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Chapter 4

Changes in wage policy and collective bargaining in the Nordic countries – comparison of Denmark, Finland, Norway and Sweden

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1. Introduction

The policy responses of the European Union to the financial and economic crisis have brought wage-setting mechanisms within the sphere of the EU's economic governance regime. Even though these monitoring processes and, in some cases, recommendations have had an impact on collective bargaining processes in some EU states, the Nordic collective bargaining systems have remained relatively unaffected by the European initiatives.

One key explanation for the absence of reactions on the part of the Nordic wage-setting systems appears to be the fact that wage moderation and the strengthening of competitiveness have been high on the agenda in these countries for the past two decades. One repercussion of economic crisis in the 1980s and early 1990s was not destabilisation or deterioration, but rather reform of the collective bargaining systems in the Nordic states. Among other things this meant steps towards decentralised wage setting and therefore room for negotiations on wage setting at company level. This did not happen in a uniform way, but at different paces and with various consequences in the Nordic states. However, one shared characteristic is that decentralised bargaining takes place within a coordinated framework. In other words, national collective agreements concluded at sectoral level set the framework for company-level negotiations. In a sense it can be argued that competitiveness was enhanced by collective bargaining based on the relatively pragmatic positions of dominant trade unions and employers' associations. It is not that conflicts and power struggles were absent, rather there was – despite some uncertainties in, for example, Sweden – a basic willingness to try to develop the collective bargaining systems.

The Nordic states are all small, open economies with well-developed welfare states. Their labour markets are characterised by high incomes and high taxes, and manufacturing firms compete on innovation, competence and, with some variations, natural resources. Denmark has been a member of the European Union since 1972, while Finland and Sweden joined in 1995. Norway has taken part in the single market since 1994 through the EEA Agreement. All the countries have a substantial public sector. The collective bargaining systems are based on strong social partners and a centralised bargaining system, with various degrees of decentralisation.

The financial crisis has had diverse effects in the Nordic countries; the oil-based Norwegian economy remained virtually unaffected; Denmark was relatively hard hit due to a self-inflicted real estate bubble; while Sweden and Finland fared somewhere in between (Andersen *et al.* 2014). Despite these differences it can be argued that the crisis has emphasised that European integration does put a strain on Nordic bargaining systems and, to a large degree, also sets the limits for wage development. The strains on bargaining systems have to do with the deepening of the single market in the enlarged EU, in which domestic-market oriented sectors, such as construction and private services, have faced competition from migrant labour and service providers from central and eastern Europe. Furthermore, it seems evident that German wage trends have had a significant impact on national debates in the Nordic countries on the potential room for wage – or cost – increases. There is a relatively strong lobby, especially among employers' representatives, that there is 'a need to follow the German economy' in order to remain competitive and thereby safeguard the profitability of companies and jobs. We therefore raise the question of how and to what degree we should see German wage 'leadership' as decisive for wage development in the individual Nordic states.

Accordingly, in this chapter we review and compare wage policy and collective bargaining in the Nordic countries. Specifically, we do the following. First, explain how in recent decades collective bargaining and wage determination systems have been reformed in the Nordic countries with a view to securing competitiveness and job creation. Second, show how economic integration of European markets – and more specifically the so-called new economic governance regime of the European Union – have had limited direct effects on Nordic bargaining systems, while there might be more indirect effects, such as German wage leadership.

Therefore we discuss the influence of German wage and cost trends in Denmark, Finland and Norway. We also address the effects of labour migration and the presence of foreign service providers in, for example, construction and private services. In the concluding section we summarise the findings and discuss future trends regarding Nordic wage bargaining.

2. Changes in collective bargaining structures

The Nordic collective bargaining systems went through quite significant changes in the 1980s and 1990s against the background of economic problems. First, there was a need to overcome wage inflation and to adjust wage formation to the international shift to low-inflation economies. Second, employers demanded more flexibility in collective agreements. Increasing competition, shifting markets, new technology and new forms of work organisation resulted in these demands from employers and politicians for more flexible labour market regulation.

The Nordic economies fared very well through the 1990s and in the early 2000s; this included increased levels of employment and very low levels of unemployment, modest but stable real wage growth and balanced public budgets. The reforms of the Nordic collective bargaining systems must be seen as inherent to the relative success – economically and job-wise – of the Nordic states (Andersen *et al.* 2014; Dølvik *et al.* 2014; Dølvik 2009).

It is important to emphasise that, in contrast to other countries, where the coordination of negotiations broke down and collective agreements were entirely replaced by workplace human resource management – for example, the United Kingdom – the Nordic countries have maintained a high level of coordination concomitantly with considerable decentralisation, particularly in Denmark and Sweden. This process has been referred to as ‘centralised decentralisation’ (Due *et al.* 1993) or ‘organised decentralisation’ (Traxler 1995). This section describes the respective national solutions to the tension between decentralisation/flexibility and coordination, as well as their significance for the development of collective bargaining processes and outcomes.

2.1 Denmark: centralised decentralisation

Since the 1980s, negotiations in Denmark have taken place at the branch level with multiple-employer agreements that set wages and working conditions within a specific trade or profession or economic area. The confederations LO and DA coordinate negotiations in the private labour market, but are not parties to the agreements. Since the major conflict of 1998 in particular, the confederations have taken it upon themselves to ensure tightly coordinated bargaining in order to avoid conflicts (Due and Madsen 2006). This is achieved by means of so-called ‘climate agreements’ or road maps that establish the timetable for negotiations, common notification concerning conflicts and joint statements in relation to bargaining results in order to avoid any doubt about the bargaining results.

Bargaining is spearheaded by the parties of the manufacturing agreements for blue-collar and white-collar workers. Here, a framework for wage and labour cost increases in general is negotiated as part of the agreements, which then sets the pattern for the other bargaining areas. This principle has been in force since the beginning of the 1990s and there has only been a single instance – in 1995 – where other areas have reached a collective agreement first. This ensures coordination in the private sector – and because of the regulation device, which stipulates that if public sector wage increases differ from those in the private sector, 80 per cent of that difference will be adjusted positively or 100 per cent of the difference will be adjusted negatively, as the case may be. This ensures that wage developments in the two sectors are parallel. One of the main reasons for strong coordination has been the centralisation of the employers over the past three decades, the number of associations in DA having fallen from 150 to 13. On the trade union side, centralisation has also been reinforced, as the LO associations in manufacturing have developed the bargaining cartel CO-industry. Other branches have also developed negotiation cartels, but they are not parties to agreements.

The mediation institution (*forligsinstitutionen*) plays a key role in the Danish bargaining systems (Galenson 1955). If negotiations at branch level do not result in renewed agreements, the mediation institution convenes for mediation. If the parties are not able to reach a settlement, the agreement is transferred to a so-called linkage procedure (*sammenkædning*), which is based on the final negotiations between LO and DA in which the mediator is involved. Here, the non-renewed agreements

are linked and made part of a total settlement proposal, which is then sent to the parties for their approval. The mediation proposal will only be made if none of the parties objects. In other words, LO and DA can oppose proposals that are not in line with what manufacturing has received (Ibsen 2013). Additionally, the trade union ballots must produce a qualified majority in order to reject the proposed renewal. This means that the linkage procedure ensures a high degree of coordination.

Within the DA area, 80–85 per cent of employees now have minimum wage agreements with local wage bargaining, and some even have figureless agreements without wage provisions, whereas 15–20 per cent have so-called normal wage agreements, where wages are set at the sectoral level (DA 2013). The content of bargaining coordination has thus changed in tandem with the decentralisation of wages and working hours to the workplace level. In the public sector, the scope for local bargaining is still negotiated as part of central collective bargaining agreements, and the implementation of decentralised wage setting can often be modest in relation to the collective agreement pay scale. In return for the decentralisation of wages and working hours, the Danish trade unions in the private sector have developed a number of social benefits in the branch agreements. This applies to the occupational labour market pension since the late 1980s and early 1990s, maternity leave benefits in 2004, continued education in 2007, the so-called free-choice account (*fritvalgskontoen*) in 2007 and the severance pay arrangement reached in 2010. Most of these benefits are also found in the public sector.

2.2 Finland: centralised incomes policy

Among the Nordic countries Finland has a lengthy history of incomes policy, based on centrally negotiated incomes policy agreements. They have resulted from tripartite cooperation between employees' and employers' central confederations and the government. Between 1968 and 2013 twenty-two centrally negotiated incomes policy agreements were concluded, while in eleven cases wage agreements were at sectoral level. As regards wage policy, Finland therefore represents continuity rather than change. This does not mean, however, that nothing has changed.

1. 'Fritvalgskontoen' is an individual account, where part of the wage or salary is deposited and can later be withdrawn either in the form of extra pension, extra paid vacation or wages.

Demands for reforming the bargaining system have increased, especially during the past twenty years. Among the participants in tripartite co-operation, employers' associations have been most active in questioning the benefits of centrally negotiated incomes policy agreements. In 2007 the Confederation of Finnish Industries (EK), the employers' central confederation, declared that it would cease to negotiate wages at the central level. The announcement was followed by two wage negotiation rounds which resulted in sectoral agreements, but since then two centrally negotiated framework agreements have been concluded.

After the 2007 announcement by EK the revitalisation of incomes policy has been somewhat surprising. It can be explained by special circumstances, however. In difficult times centrally negotiated incomes policy agreements have been used as the means of concluding very moderate wage increases. In the incomes policy agreement concluded in 1991 wage increases were frozen for two years. The latest incomes policy agreement, concluded in October 2013 – that is, in the middle of a recession of the Finnish economy – is also based on very moderate wage increases. During the past twenty years, centralised incomes policy agreements have been proof of consensual behaviour on the part of the peak labour market confederations and the government.

Besides special circumstances some peculiarities in Finnish corporatism may provide an additional explanation for the continuity of centralised incomes policy. In Finland employees' and employers' central confederations have traditionally had a very strong position not only in the arena of industrial relations but also in the political system. This has mainly been due to the lack of strong 'friendly' left-wing and bourgeois parties which would have represented employers' and employees' interests in the political system. For example, in comparison with the Swedish Social Democratic Party, the Finnish Social Democratic Party has traditionally been much weaker. Nor has there been a strong bourgeois party which would have represented employers' interests. The peak confederations have therefore had a strong incentive to enter into the political arena as political actors.

This history provides one reason for the comprehensiveness of the centrally negotiated incomes policy agreements in Finland. In addition to agreements on wages and salaries, comprehensive incomes policy agreements have included important social policy reforms and other policy issues (Kiander *et al.* 2011). They have involved, for example, major

changes in earnings-related social security and in transfer payments in general. In comparison, for example, with Sweden the role of labour market confederations as active actors in the political arena has been very different in Finland (Kiander *et al.* 2011).

During the past twenty years, the importance of local bargaining has increased, but not at the cost of centrally negotiated comprehensive incomes policy agreements. Decentralisation has been organised and complementary to higher-level bargaining. It has taken place such that higher-order collective agreements constitute benchmarks for local bargaining (Sippola 2012). The role of higher-order agreements have been crucial and, for example, the use of opening clauses has been exceptional. In addition, the high bargaining coverage has increased the importance of collective agreements in wage formation. It has been one factor behind the high level of bargaining coordination.

The Finnish way of putting decentralisation into practise reflects the traditionally strong position of trade unions at local level. It has been accompanied by high union membership. Furthermore, trade unions have been central actors both in company bargaining and codetermination activities. Codetermination has been trade union-based.

2.3 Norway: tripartite cooperation and reinforcing the frontrunner model

The Norwegian collective bargaining system has never decentralised to the same degree as the Danish and Swedish ones. Except for parts of the 1980s, incomes policy and coordinating measures by the social partners at peak level have been key elements of the wage-setting model. Whereas the early and mid-1990s were marked by relatively extensive incomes policy measures combined with moderate wage increases – triggered by an economic downturn (Solidarity Alternative) – the end of the 1990s was characterised by high wage increases compared with Norway's trading partners, high wage drift and tensions within the bargaining system as public employees felt that their wages were lagging behind the private sector. This led to renewed focus on the wage-setting mechanisms.

In 2000 and 2003, state appointed committees with representatives from all the major trade unions and employer organisations confirmed the relevance of and support for the so-called 'trendsetting industries

model'. The theory behind the model was first published in the 1960s and later formulated as a macroeconomic two-sector model for wage setting and inflation in small open economies (Aukrust 1977). In Norway the rationale has been that the framework for wage increases is given by price increases in international export markets and productivity increases in export industries. In addition, currency rates influence the competitiveness of the export industries and the monetary regime – and changes in it – is an important factor in the model. Since 2001 the central bank (Norges Bank) has pursued a monetary policy aimed at a stable inflation rate.

Multi-employer bargaining at peak and industry level is the dominant model of collective bargaining, often supplemented by bargaining at workplace level. The running period for collective agreements is two years, although wage rates are renegotiated after one year. The pay rounds always start out with the export industries if agreements are renegotiated separately, or with all the LO/NHO agreements if negotiations are conducted at peak level. No agreements will be signed before a settlement is reached for the trend-setting industries. Cross-sector renegotiations at confederation level were originally seen as a main characteristic of the collective bargaining model. However, since 2000 only two of eight main renegotiations have taken place between the main confederations. So, over the past decade other types of coordination have dominated, such as coordination between employer associations and within the main trade union confederation, LO.

In the public sector, blue-collar and white-collar workers are covered by the same agreements, and negotiations are undertaken by bargaining cartels within the labour confederations. The implication is that all trade union confederations will end up with the same agreement. However, the wage structure of academic positions is more decentralised than other positions in collective agreements covering municipal employees.

The Norwegian system of bargaining and incomes policies is anchored in tripartite committees and state-supported mediation. The trade union and employers' confederations, the state and Statistics Norway all participate in the TBU committee (*Teknisk beregningsutvalg*). The committee publishes detailed wage figures, including carry-over effects and wage drift for the main bargaining areas, as well as developments in labour costs among Norway's most important trading partners. In this way the committee contributes to a common understanding of the

economic situation among the social partners. The National Mediator plays an important role in facilitating new agreements and will normally follow the main framework given by the trend-setting industries agreement in its proposals. In cases in which industrial action is ended by compulsory arbitration, the National Wage Board will normally look to the trend-setting industries agreement in order to discourage break-aways. Lastly, the state has contributed to moderate settlements through incomes policy. Although less pronounced over recent decades compared with the 1970s and late 1980s/early 1990s, it is not uncommon that social reforms or labour market measures are introduced through collective bargaining.

2.4 Sweden: coordinated decentralisation

Lack of coordination in Swedish wage bargaining in the 1980s and the economic crisis at the beginning of the 1990s, spurred the Swedish government to step in. First, with a failed attempt at incomes policy, thereafter with the Rehnberg Commission, which assisted the parties with mediation and coordination in order to restore wage restraint across branches and sectors in line with wage developments abroad (the so-called 'Edin norm') (Elvander 2002). The Commission was a success from 1991, but coordination broke down in 1995, when bargaining was plagued by conflict and led to higher wage increases than abroad, despite high unemployment and continued economic problems.

In the wake of the 1995 breakdown, the manufacturing trade unions across LO, TCO and SACO invited their employer counterparts in 1996 to draft a new bargaining arrangement based on wage restraint, synchronised negotiations and a strong mediation institution. This resulted in the Industry Agreement (*Industriavtalet*) of 1997, which firmly established the new principles of the Swedish collective bargaining system (Elvander 2002).

First, competitiveness was to be restored by means of reasonable wage development in line with developments among trade partners abroad. Second, the negotiations were to be synchronised with consideration of the expiration date and length of the collective bargaining agreements in order to avoid wage spirals. Third, impartial mediators (*opartiska ordföranda*) were entrusted with helping the parties reach agreement and ensuring coordination across the collective agreements in manu-

facturing. Coordination between the manufacturing partners was also strengthened by the establishment of the Swedish Unions within Manufacturing (*Facken inom Industrin*). The employers in manufacturing industry also increased their coordination, in which Teknikföretagen (previously, *Verkstadsföreningen*) assumed the most important role (Ibsen 2013).

Agreements regarding cooperation and negotiations were also established in other branches in the wake of the Industry Agreement. Moreover, the state established the Swedish National Mediation Office (*Medlingsinstitutet*) in 2000, which includes obligatory mediation for parties when they are unable to reach agreement and when they do not have their own bargaining agreement with built-in mediation. The Swedish National Mediation Office was entrusted with ensuring labour peace and socio-economically defensible wage development based on the pattern-setting manufacturing agreements. This means that the mediators will never present a settlement proposal that exceeds the manufacturing pattern, even in the event that the employers might be willing to accept. This is to ensure wage restraint in the mediation procedure (Ibsen 2013).

Since decentralisation from central to branch and sectoral levels, the new Swedish collective bargaining system has increased coordination significantly, while also more agreements have now become framework agreements with regard to wages and working hours. In the private sector, 83 per cent of the agreements include local wage formation, whereas 17 per cent pertain to central wage determination (Medlingsinstitutet 2013). However, the collective agreements in the private sector still include minimum guarantees and clauses guaranteeing wage increases in the local and individual negotiations – also for civil servants (*tjenestemænd*) and academic groups. Wages are set locally to a much higher degree in the public sector. Issues such as continued training, however, have not become widespread in collective agreements (Ibsen 2013).

To conclude this short review of changes to collective bargaining structures, it seems fair to claim that the Nordic countries have maintained a high level of coordination together with much decentralisation despite national variations. Moreover, the export-oriented industries – especially manufacturing – were the driving force behind institutional changes in the late 1980s and up through the 1990s. Increased interna-

tional competition and new production methods in the 1980s seem to have motivated employers, but in contrast to other European countries, reforms did not erode comprehensive bargaining. This does not, however, mean that the bargaining systems are free from both internal and external challenges. It is to some of the most salient challenges that we now turn.

3. European economic integration and challenges facing the Nordic bargaining systems

Even though the Nordic collective bargaining systems have been reformed in recent decades and thereby have been adapted to more intensified cross-border competition it does not mean that Nordic wage bargaining has remained unaffected by the EU's new economic governance. The direct effects of new European policy initiatives might have been limited, but other more indirect effects or consequences of European political and economic integration are present. This concerns strains on the bargaining systems due to the deepening of the single market in the enlarged EU, where domestic market-oriented sectors, such as construction and private services, face competition from migrant labour and service providers from central and eastern Europe. Furthermore, German wage trends have an impact on national debates in the Nordic countries on the potential room for wage – or labour cost – increases. Nordic wage trends are particularly affected by European trends via trade dependence on the German economy. This is not new, but the need to remain competitive and therefore also to keep wage and cost increases on a par with the most important trading partners – Germany – has been reinforced since the financial crisis. The relative success of the German economy in recent years has enhanced its position, creating what could be termed a discourse about the 'need to follow the German economy in order to secure balanced budgets and competitiveness'. In the following we raise the question of how and to what degree we should see German wage leadership as decisive for wage development in, respectively, Denmark, Finland and Norway. But before focussing on German influence on wage bargaining we turn briefly to the strain on wages and wage regulation caused by competition from migrant labour and service providers from central and eastern Europe.

3.1 Labour migration – potential effects on wage levels and bargaining systems

The expansion of the EU/EEA labour market has led to a strong influx of labour migrants and service providers from central and eastern Europe (CEE) into the Nordic countries. The volume of migration from those countries has varied over time. While Denmark and Sweden were the top destinations before 2004, Norway has received an increasing share since the 2004 enlargement. In 2006 Norway became the top receiving country with almost half of all the migrants from CEE countries to the Nordic region in 2011. The Finnish share decreased from 2004 to 2008, but has increased again since then (Tronstad and Joona 2013). In the years 2003 to 2011, 335 000 citizens from the new EU countries moved to the Nordic countries. In addition, a large number were working temporarily in the Nordic countries, for instance as workers posted by foreign service providers. It has been estimated that this group in Norway, Sweden and Denmark made up about 40 per cent of workers from CEE countries (Eldring and Friberg 2013; Friberg and Eldring 2013). The use of migrant workers has been particularly high in construction, manufacturing and the low-skilled parts of private services.

Labour migration has satisfied a great demand for labour in the Nordic countries. This has benefitted the economy, but has also implied challenges for the system of collective bargaining and wage coordination. Due to large pay differences between CEE countries and the Nordic countries, migrant workers often accept or might be compelled to accept wages that are lower than those prevailing in the Nordic labour markets (Friberg *et al.* 2013). None of the Nordic countries have a national statutory minimum wage. In Finland and Iceland the minimum wage floor is secured by generally applicable collective agreements. This is also the case for a few industries in Norway, such as construction, shipyards, cleaning and the green sector. Sweden and Denmark, as well as the majority of Norwegian industries rely on collective agreements alone to secure a minimum wage floor. Foreign service providers are less likely to be bound by collective agreements and can in such cases offer lower wages and worse working conditions to their employees, thereby reducing costs and enhancing their competitiveness. The same may apply to unorganised domestic firms (unbound by collective agreements) that rely on hiring cheap migrant labour, either directly or through subcontractors.

Decreasing union density and collective bargaining coverage in combination with a large supply of low-wage employees can make it more tempting also for domestic employers to opt out of collective agreements, thus leading to a downward spiral. General application of collective agreements can to some extent counteract this effect. The Finnish system, however, is dependent on collective agreements to cover close to half of the workers by being made generally applicable (Seip 2010). In Norway it is essentially only the minimum wages of collective agreements that are made generally binding. An increase in the proportion of enterprises and workers standing outside organisations and agreements, could, everything else being equal, affect the competitive situation between organised versus unorganised firms and workers and thereby weaken the organised actors' influence and membership base (Andersen *et al.* 2014). A growing share of unorganised workers reduces the negotiating power of trade unions and can alter the balance between employers and employees and accordingly affect wage trends. The Nordic countries may also face greater disparities between groups of employers, with low skilled workers receiving less and high skilled workers more than they would have in a more coordinated wage policy regime. Analyses from the Norwegian construction industry show that labour migration has had a negative effect on wages for domestic workers, partly due to substitution effects, but that extension of collective agreements may counteract this (Bratsberg *et al.* 2013; Holden 2014).

Table 1 Mechanisms for determining wages in the Nordic countries

	Coverage of collective agreements in the private sector*	Extension of collective agreements	Regime
Denmark	74%	No	Autonomous collective bargaining model
Sweden	85%	No	Autonomous collective bargaining model
Norway	50%	Yes, some since 2004	Mixed model
Finland	85%	Yes, widespread	Statutory regulations (and strong unions)
Iceland	95%	Yes, widespread	Statutory regulations (and strong unions)

Note: *Numbers from Finland and Iceland include employees covered by generally applicable collective agreements. In Finland bargaining coverage excluding generally applicable agreements was 73 per cent in 2008 (Ahtiainen 2011). Source: Alsos and Eldring 2014.

3.2 Influence of the new European economic governance on the collective bargaining systems of the four Nordic countries

As members of the EU, Denmark, Finland and Sweden have been potential objects of the new political interventionism exercised by the EU. In the field of collective bargaining, the major instruments of wage policy intervention have been Country-specific Recommendations (CSRs) issued within the context of the European Semester. CSRs could have been related to wages and wage-policy institutions. The recommendations are prepared by the European Commission, but their final adoption is carried out by national leaders in the European Council. Accordingly, the recommendations prepared by the Commission might be approved by the Council only after some modification. In addition to CSRs, the European Commission can produce, for example in Alert Mechanism Reports and in-depth reviews, commentaries on wages and wage-policy institutions.

Among the three Nordic EU countries, only Finland and Sweden received wage-related recommendations from the European Commission during 2012–2014. Finland obtained two, one in 2012 and one in 2013. In both of them, wage restraint, or the alignment of real wages and productivity developments, was recommended. The reason for these recommendations was primarily that Finland within the alert mechanism had exceeded the threshold of increases in unit labour costs. In the in-depth review for 2012 ‘rigidities in the wage settlement process’ are regarded as causes of the significant rise in unit labour costs (European Commission 2012c: 2). The recommendations, which are not binding, had no influence on Finnish policy discussions. Nor was the tone of the recommendations demanding. The Commission’s recommendation on Finland’s 2013 national reform programme advised that Finland should take action to ‘support the alignment of real wage and productivity developments whilst fully respecting the role of social partners and in line with national practices’ (European Commission 2013: 6). Any recommendations that might concern the Finnish system of multi-employer bargaining have not been put forward. However, there is a comment on wage dispersion which can be interpreted as being about the Finnish bargaining system: in the in-depth review for 2014 compressed wage distribution is regarded as a cause of high prices, eroding both domestic welfare and external competitiveness (European Commission 2014a: 51).

Sweden received one wage-related recommendation from the Commission (in 2012). It reflects one of the main objectives of EU policies; the

desire to increase downward flexibility of wages. The European Commission recommends that Sweden should ‘take further measures to improve the labour market participation of youth and vulnerable groups by focusing on effective active labour market policy measures, encouraging increased wage flexibility, notably at the lower end of the wage scale’ (European Commission 2012d: 5). Sweden is a country with both a highly compressed wage structure and, accordingly, a very small low-wage sector. The recommendation was aimed at enlarging the low-wage sector. Overall, in the Commission’s view Sweden is among the most competitive EU countries, which explains the absence of comments and recommendations related to cost competitiveness.

Denmark has not received wage-related CSRs from the Commission, but in some commentaries the Commission has paid attention to the deterioration of price competitiveness which, it said, was due to high nominal wage increases in the period of overheating and weak productivity growth in the years leading up to the financial crisis (European Commission 2012a: 14; 2012b: 8). Unit labour costs have since decreased. On the whole, in comparison with the crisis countries, the new European interventionism has so far not had a notable influence on collective bargaining in the three Nordic EU countries.

4. German impact on Nordic wage bargaining

Germany’s success in job creation since the financial crisis and the fact that wage increases there were modest in the years leading up to it have affected debates on wage development in the Nordic countries. Looking at wage development, all the Nordic countries experienced a relatively high wage growth from 2000 to 2013, whereas German relative wages decreased (see figures in chapter 2). The country differences within manufacturing are smaller, but still we see clear differences in relative wage developments. In this section we will discuss the influence of German wage policy in Denmark, Norway and Finland in recent years.

4.1 Denmark: influence of new economic governance and German wage policy

Although Denmark is not part of the EMU, the government (in office since 2011) has nevertheless committed itself to the convergence criteria

and carefully sought to restore trust in Danish finances. It has done so by restoring balanced public budgets and pursuing a reform programme designed to increase labour supply and labour productivity. This is in line with the Commission's recommendations to Denmark on preserving a sound fiscal position (European Commission 2014b). Moreover, central tight control on public spending and sanctions for over-spending in local government meant that municipalities have underspent during the crisis with a knock-on depressing effect on fiscal stimulus from these important public sources (Pedersen and Andersen 2014). Critics – among them trade union economists – have therefore remarked that the strict Danish adherence to the EMU-criteria is dampening growth and the reliance on export-led job-growth might be too one-sided. Indeed, Danish exports are healthy but have not produced the expected job-rebound.

With regard to the Danish wage bargaining system, the EU has not – as shown above – made any recommendations of reform. As noted in the previous section, Danish wage-setting was gradually transformed during the 1980s and 1990s to become quite flexible while keeping a high degree of coordination – what has been called 'centralised decentralisation' (Due *et al.* 1993). At the onset of the crisis in 2008, the social partners were quick to agree on the real economic consequences for the open Danish economy. As thousands of jobs were shed, the pattern-setting social partners in manufacturing agreed very modest wage increases in 2010 and 2012, but the real changes happened on the shop-floor with wage freezes or sometimes wage cuts in company level bargaining. This was possible due to the flexible wage-systems in most private sector companies.

According to Danish Industry – the largest employer federation – between a quarter and a third of employees in manufacturing accepted a wage freeze in local wage bargaining, setting a new record. Moreover, supplementary pay for over-time, odd-hours and so on virtually disappeared overnight, depressing wage development even further. Real wages consequently suffered and did not become positive again – albeit very modestly – in the private sector until the first quarter of 2013. Wage competitiveness has increased relative to pre-crisis levels with employers and workers using wage flexibility inherent in collective agreements.

Some industries have been under such strain from job losses and cost competition that minimum wage levels in collective agreements have come under pressure. For example, the management of Danish Crown

(meat processing) argued that competition from German labour costs will force the company to relocate production if wages are not cut drastically (see also below). Other companies, such as in retail, have also questioned the minimum wage levels due to the crisis in private consumption. It remains to be seen whether the call for opt-out clauses is a passing phenomenon linked to the business cycle or an enduring phenomenon due to structural problems in some industries.

The influence of German wage policies in Denmark

Denmark has a long and deep rooted history of German influence on Danish economic and political life. This is first of all a consequence of Denmark being a small open economy neighbouring the much larger German economy. Looking at recent decades Germany has been the most important trading partner for Denmark. Further, many Danish manufacturing companies have been and still are operating as subcontractors for German corporations. The bottom line is that the state of the German economy will always have an impact on the Danish economy. Attention towards fluctuations in the German economy is therefore inherent in Danish economic decision-making; both at company and national level.

This includes attention towards processes of collective bargaining in Germany and wage trends in general. Not least due to fact that since the 1980s the Danish Krone has been pegged first to the D Mark, and later the Euro, the awareness of Danish policy makers, including representatives of employers' associations and trade unions towards German wage developments has deepened. The fixed exchange rate policy has created a strong transparency on Danish wage trends versus German trends which in turn gives immediate indications whether wage increases hamper companies competitiveness or not. In more recent years we also know that the Danish metalworking trade union, Dansk Metal, has intensified contacts to their German colleagues in the Baltic Sea region, IG Metall Bezirk Küste, in order to be able to follow trends and developments in Germany (Andersen 2006). Similar contacts exist for the employers.

Next to this long known interest in and dependence of wage trends in Germany the German success on job creation since the outbreak of the financial crisis has paved the way for an even stronger focus on job creation and wage trends in Germany in the Danish debate. Especially representatives of the dominant employers' associations are emphasising that

the competitiveness of Danish exporting industries has been weakened not least due to relatively high wage increases from around year 2000 and until the crisis emerged. Often Germany has been the point of reference in this debate. Real wages in manufacturing increased quite considerably in Danish manufacturing compared to Germany from 1998 to 2010. Since then real wages in Danish manufacturing has by and large stabilised.

Dominant trade unions did recognise that wage increases in the years leading up to the financial crisis were 'unbalanced'. Still in the subsequent years think tanks linked to the trade union movement have produced a number of reports and policy papers responding to the diagnosis of staggering wages and lost competitiveness as causes of failing job growth. In a report entitled *Danes will not be richer following the German path* the Economic Council of the Labour Movement argues that one important difference between the two countries is that Denmark was faced with a housing-bubble leading to a drop in house prices, declining fortunes and shrinking private consumption. The Council argues that the Danish labour market is healthy and well-functioning and warns against some German trends i.e. what is termed a polarisation as wage developments for some groups like private services are lagging behind manufacturing (AE 2014).

The centre-left think tank Cevea presents an identical critical perspective on the development on the German labour market and thereby also warns against adopting lessons from Germany. Growing wage inequality is once again a core theme in this publication (Cevea 2013).

Specific challenges arise from the quite significant differences in wage-levels between low wage groups in Germany and Denmark. Germany has from January 2015 introduced a statutory minimum wage at 8.50 € per hour. The minimum wage stipulated in the Danish collective agreements is around 15 € per hour for unskilled jobs. This wide gap in minimum wage levels between the two countries is to some degree explained by different social systems; employers' social contributions in Germany versus a universal social system financed via personal taxes in Denmark. Nevertheless, this makes low skilled jobs attractive for some Germans as well as other groups of foreign workers. This causes worries in trade unions as foreign workers might accept working at minimum wages in jobs where native workers typically are paid above minimum wage levels. This has often been framed as 'wage dumping' by the trade unions.

Another effect of the substantial wage gap between the two countries is the outsourcing of jobs to Germany.

Probably the most prominent example is the slaughter houses. Danish Crown is a multinational company accounting for around two-thirds of jobs in slaughter houses. Since 2003 Danish Crown has been both centralising and relocating. Some 20 sites have been closed and jobs have been sourced both to larger sites in Denmark and abroad – especially to Germany. Approximately 2,000 jobs have been relocated to sites outside Denmark (Refslund 2012). One of the main reasons for relocating jobs in Germany is that slaughter house workers typically earn 8–12 euros per hour there, whereas Danish workers earn 24–27 euros, according to Danish Crown. Typically, the German sites employ sub-contracted eastern European workers who are exempt from non-wage social contributions and collectively agreed wage rates as they are posted workers employed by, for example, eastern European agencies.

Summing up, it can be argued the influence of German wage policies and trends are both quite direct due to the small and open Danish economy's dependence of the German markets and has especially in recent years had a strong effect at a more discursive level due to the apparent success of the German economy; meaning how to interpret and understand the relatively poor Danish economic performance and what are the necessary policy initiatives in order to bring back growth, jobs and increase in real wages for all groups in the labour market.

4.2 Finland: the influence of German wage policy is apparent

As a full member of EMU, Finland is in a special position among the Nordic countries. In the absence of a sovereign currency, it is impossible to use exchange rate policy as a means of affecting price competitiveness. Consequently, the importance of domestic wage policy increases, as does that of wage policies in neighbouring competing countries. As Germany traditionally has been an important trading partner for Finland, its economic importance as the core country of the EMU has made it even more important. Therefore wage trends in Germany have been monitored closely especially since entering the euro zone, and German wage policy has been an important topic in Finnish discussions on wages and costs. Not only German wage developments but also the German collective bargaining system has been part of the debate. The most important

driver behind these debates has been the employers in the Confederation of Finnish Industries (EK).

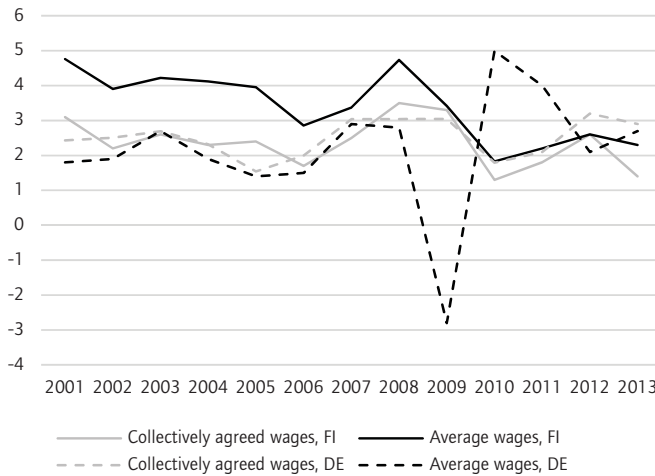
Employers' representatives have maintained that, because of too costly collective agreements, the Finnish exports industry has lost its price competitiveness. In its statements, EK has emphasised that, in particular, a drastic deterioration of price competitiveness vis-à-vis Germany has taken place. Regarding the bargaining system representatives of employer's confederation have proposed that Finland should learn from German experiences. Meaning that wage bargaining should be decentralised in Finland, for example, via expanding the possibility to use various kinds of derogation clauses. Currently options to deviate from pay norms set by collective agreements are substantially more limited in Finland than in Germany. Obviously Finland provides an interesting case as developments since entering the euro illustrates how, within a monetary union, not only wage policies but also systems of wage bargaining are interconnected. In what follows, we give a more detailed comparison between Finland and Germany.

Figure 1 summarises some similarities and differences in wage trends within manufacturing in Finland and Germany during 2001–2013. Evidently there is a strong similarity in collectively agreed wages during the period. Annual changes may have differed a little, but in both countries collectively agreed wages increased by 30 per cent from 2000 to 2011. There is, however, a noticeable difference between changes in average actual wages during the period from 2000 until 2011. In Finland average actual wages increased faster than collectively agreed wages, while in Germany they increased less than collectively agreed wages. This means that German wage drift – that is, the difference between the increase in actual and collectively agreed pay – has been negative, while it has been positive in the Finnish case.

Even though the difference between increases in actual wages in Finnish and German manufacturing is obvious, it needs to be emphasised that the difference is not due to the conclusion of too costly agreements in spite of what some employers' representatives often state.

The discrepancy is due to the difference between the collective bargaining systems in the two countries. In Finland, collectively agreed pay increases normally set a minimum for actual pay increases, while in Germany this is not the case. An important explanation for negative wage

Figure 1 Developments of average wages and collectively agreed wages in Finland and in Germany 2001–2013, manufacturing (%)



Source: TURI database on collectively agreed wages, Destatis, Statistics Finland.

drift has been the use of opening clauses see, for example (Bispinck and Schulten 2011; Schulten and Bispinck 2014). As employers may benefit from the use of opening clauses, it has not come as a big surprise that employers in EK are interested in having at least a partial reconstruction of the Finnish collective bargaining system.

Despite higher wage increases in the Finnish manufacturing industry, there have not been any significant differences in unit labour cost developments compared to Germany. Labour productivity growth has compensated for higher labour cost increases. According to unit labour cost developments in manufacturing, the Finnish exports industry has not experienced any dramatic loss of competitiveness. However, if one looks at unit labour cost developments in the entire economy, a clear discrepancy has developed between Finland and Germany. During 2001–2012, price competitiveness has deteriorated by some twenty per cent. The above mentioned CSRs delivered by the Commission are based on the use of unit labour costs in the whole economy as the relevant indicator for price competitiveness. In the Finnish debate, employers' representatives have systematically used developments of this indicator

as the proof that the Finnish competitiveness has decreased significantly vis-à-vis Germany.

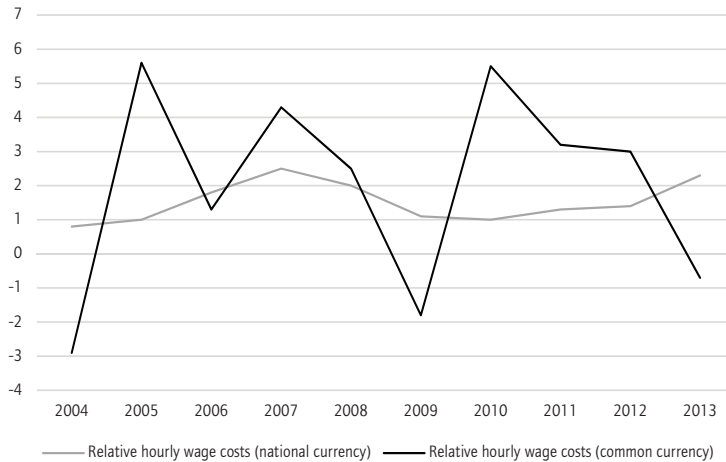
Some noteworthy conclusions can be drawn from the comparison between Finland and Germany. Within a monetary union, differences in wage bargaining systems may give rise to notable differences in actual wages even if increases in collectively agreed pay have been similar, and consequently, to corresponding differences in unit labour costs. This means that the coordination of wage policies, or wage claims between trade unions located in various countries, may be extremely difficult if wage bargaining systems differ among these countries.

The current situation in Finland supports the view that the basic prerequisite for the strengthening of labour unions' attempts towards European-level coordination of collective bargaining is the maintenance of the strengths of multi-employer bargaining systems. On the other hand, it is not surprising that currently one of the employer's organisation, EK's, main objectives is to 'import German elements' into the Finnish collective bargaining system.

4.3 Norway: Benchmarking of trading partners in a petroleum driven economy

The European economic integration has had less effect in Norway, as there is no currency binding to the Euro and as Norway is not part of the economic coordination. However, this does not mean that Norway is unaffected by the EU development in this field. As mentioned earlier international export markets play an important role in the trend setting bargaining model. The competitiveness of the Norwegian export industries, or terms of trade, is measured by the tripartite committee Technical Calculation Committee (TBU), with representatives from all the major social partners. The TBU committee has developed an indicator based on the Norwegian wage level or the Norwegian labour costs compared to an average wage costs among the most important trading partners. These ratios are measured in common currency (see Figure 2). In this context Germany is playing an important role as topping the list of the most important trading partners in 2011 to 2013 followed by Sweden and Great Britain (NOU 2014: 3). However, a number of other countries are included in this indicator as well. The terms of trade, included the future prospects of the Norwegian economy, are discussed in the annual

Figure 2 Developments of relatively hourly wage costs in Norway compared with average wage costs among trade partners



Note: Changes from the previous year. Employees in the manufacturing/industry sector.

Source: Norwegian Technical Calculation Committee for Wage Settlements (TBU).

reports presented by the TBU committee. The committee does not give any recommendation for the coming wage settlement, but is rather contributing to a common understanding of the economic situation which is seen as an imperative factor for the opening negotiations in the export sectors as well as for coordination across industries and sectors.

The wage setting model has been under pressure on a number of occasions, among others as a result of high wage settlements or high wage drift compared to trading partners. Such periods have often been followed by moderate settlements and stronger coordination, often supported by strengthened tripartite cooperation. In addition the Norwegian dependence on petroleum exports, and thereby the importance of the petroleum related industry, means that the Norwegian economy may develop otherwise than the neighbouring countries. In 2013 the tripartite *Holden Committee* which included social partners together with economic experts discussed whether the trendsetting industries model had to be reconsidered, due to the way the labour market has been affected by changes in the Norwegian as well as the international economy. In the period 2010–2012 the Norwegian manufacturing sector lost out in

terms of trade, and representatives from both sides in industry called for moderation in wages and costs in order to save jobs. Among the questions asked by the Holden Committee, was whether the wage bargaining model is able to handle a situation with high demand in the petroleum sector combined with an international market in recession for the more traditional export industries. Major parts of the metal industry – which always are part of the trend-setting industries collective agreement – are suppliers to the petroleum industry and thereby strongly influenced by the oil price (which might be high even in a period of international crises). However, the committee did not propose any changes of the trend setting industries model such as removing suppliers to the petroleum industry from the relevant collective agreement. The recommendation from the committee was to strengthen voluntary coordination measures, and pointed to the fact that Norway will face lower income from the petroleum sector due to decreasing oil revenues as well as more variable oil prices over time.

In major parts of the private sector company level bargaining on average make up more than 50 percent of the annual wage increases. As in the other Nordic countries, company bargaining takes place under a peace duty clause and under the framework of the central level agreements. The parties have agreed that company level bargaining should be guided by the profitability, productivity, future prospects and competitiveness of the company ('the four criteria' from 1990s) although the compliance of this principle is based on a common understanding without any instruments for enforcement. The unions for white collar workers never had the strength and high density rates as seen in Denmark and Sweden, and in the private sector wage setting for white collar workers is mainly decentralised and to a large degree based on individual criteria.

Although the employer side argues in favour of less detailed regulations at central level, multi-employer bargaining and the sector-wide agreements have not been challenged by the employer side. Opening-clauses or opt-outs from collective agreements have not had any major impact. In the 2009 bargaining round, when many companies experienced economic insecurity as a result of the financial crises, the trendsetting industries decided that the general wage increases awarded at central level could be postponed or ignored in situations where company finances were poor. However, this did not open up for local partners to reduce wages below the minimum rates in the collective agreement for the industry and the option was hardly used. Still, in a long-time perspective

the trend setting industries model and its strong reliance on coordination might be challenged by the weakened capacity to regulate wages in low-pay sectors as well as by groups who no longer see an interest in submitting to the normative framework set by a decreasing number of traditional blue-collar workers and their employers.

5. Discussion: The future of Nordic wage bargaining

The export-oriented industries – especially manufacturing – have been the driving force behind changes in the collective bargaining systems in the Nordic countries in the late 1980s and up through the 1990s. Increased international competition and new production methods in the 1980s was the motivation for employers calling for changes. As we have seen, the collective bargaining systems are intact, but changed. Across the Nordic countries, the industrial structure is varied and different types of industry dominate in the individual countries. Overall, however, manufacturing companies and their exports have maintained an important role for the national economies.

As we have shown, institutional changes in the collective bargaining systems did not happen in a uniform way, but had varying paces and consequences in the Nordic states. In spite of the differences we find in all these bargaining systems decentralised bargaining within a coordinated framework. In other words national collective agreements concluded at sector level is setting the framework for company level negotiations. Taking into account the overall economic performance of the Nordic states we argued that competitiveness was enhanced via collective bargaining based on the relatively pragmatic positions of dominant trade unions and employers' associations. As emphasised this does not mean that conflicts and power struggles have been absent, rather that we have seen a basic willingness to try to develop the collective bargaining systems.

This overall trend first and foremost cover the period between the crisis of the 1980s and the very early 1990s and the financial crisis. Hereby said that over recent years – and accelerated by the financial crisis – new challenges have become apparent. Manufacturing industries have experienced an accelerating internationalisation in recent decades, which in turn has increased the competition for the remaining workplaces and led to debates as to whether parts of the Nordic manufacturing industry are close to hitting the critical levels for what is required to maintain

the national preconditions for innovation and competence development that are essential for job creation in manufacturing. Many jobs were for instance lost in Danish manufacturing in the early years of the financial crisis. In most recent years employment in Danish manufacturing has increased, however, with relatively modest figures. The question is whether we in the years to come will see a substantial increase in innovation, production and job-creation or not.

After underlining the importance of the reform of the collective bargaining systems in the Nordic states we turned to the question of the potential impact of the new economic governance regime of the European Union on the Nordic collective bargaining systems. We concluded that the direct effect of these policy initiatives have been limited. Few and rather insignificant recommendations have been forwarded to the Nordic states regarding the development in wages and income. On the other hand, we raised the question of indirect effects, such as the potential German wage leadership. The basic argument was that the small and open Nordic economies are very interwoven with and therefore dependent of the much larger German economy. The discussion of how German wage trends have influenced national debates on wages and costs seems to suggest that in recent years there we have seen a rather substantial influence of German wage trends in Finland and Denmark on the national debates on the potential room for wages increase – or even the institutional set-up of the bargaining system (the Finnish case), while this is less so in Norway. The reason for Norway to a larger degree bypassing the German ‘wage-leadership’ might be Norwegian dependence of petrol industry which therefore also influence economic dynamics and priorities. With regard to Finland and Denmark it appears to be evident that the German economic success in recent years has made the discourse of German wage leadership stronger whereas in the pre-crisis years Nordic wage increases clearly exceeded German trends.

Furthermore, we raised the question how European integration in other ways influence wage developments in the Nordic countries. In recent years there has been a quite heated debate on social dumping, especially voiced by the trade unions. Moreover, since EU’s enlargement into eastern and central Europe, companies in some sectors, typically construction, shipbuilding, the food industry, slaughterhouses, agriculture and horticulture, are exploiting the free movement of labour and services to use cheaper subcontractors and temporary employment agencies. Some businesses are also employing cheaper workers from abroad in their do-

mestic manufacturing. There are employers who argue that this is necessary to compensate for the high Nordic labour costs in order to avoid increased outsourcing or simply closing the activity in the host country, which they claim to be the alternative. This is a major dilemma for the employer organisations, where the large companies can exploit the advantages of free mobility, while many of the members from smaller companies are often left with a difficult struggle merely to survive (Alfonso 2012).

The market integration and internationalisation have also progressed rapidly in the transport industry, where the large international logistics and transport companies place trucks and drivers in complicated systems using the various wage and costs levels in the respective European countries in order to maximise their returns (Dølvik *et al.* 2003; Jensen *et al.* 2014). As with manufacturing and construction, road transport is a part of the internal market, but there are still rules for how many trips a foreign truck or bus may run in another EU country with national goods or passengers – the so-called *cabotage rules*. Nevertheless, international road transport in and out of the Nordic countries has largely been taken over by foreign drivers, often from eastern and central Europe, and in the domestic road transport there is a recurring debate about how difficult it is to control *cabotage* rules and the increased low-wage competition.

The opening of markets has thus intensified price competition between companies and the struggle for earnings and jobs in large parts of the domestic-oriented sectors. In this manner, the broader market integration puts the collective bargaining systems in the affected sectors under pressure. In addition to transport and construction, there is reason to assume that especially the labour-intensive private service sectors, such as retail trade, hotels and restaurants as well as cleaning will be particularly vulnerable, as the development in productivity and added value is more modest than in manufacturing, unionisation is much weaker and the hiring of foreign labour is increasing. In the longer term, such trends may undermine the basis for the close coordination of agreements and wage formation across industries in the Nordic countries and provide the basis for increased differentiation of wages between and within branches in line with what has been seen most clearly in Germany in recent decades.

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